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ORIGIN EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

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AF-08 ARA-06 EA-07 NEA-10 OIC-02 OPIC-03 XMB-02 /139 R

DRAFTED BY EB/OT/GCP - RREIS

APPROVED BY EB/OT/GCP - JSLATTERY

TREASURY - EBARBER

COMMERCE - RHARDING

AGRICULTURE - JSCHROETER

LABOR - HFIEKOWSKY

STR - JROSENBAUM

EUR/SE - JRATIGAN (DRAFT)

STR - WKELLY

----- 035022

R 300138Z OCT 76

FM SECSTATE WASHDC

TO USMISSION GENEVA

INFO AMEMBASSY ATHENS

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: GATT, ETRD, EFIN, GR

SUBJECT: GATT BALANCE OF PAYMENTS COMMITTEE CONSULTATIONS
ON GREECE, NOVEMBER 4, 1976

REF: GENEVA 7394, ATHENS 9007, ATHENS A-139, GATT
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BOP/164, IMF SM/76/131

1. SUMMARY -- THE TPSC HAS REVIEWED THE GREEK SUBMISSION TO THE GATT BALANCE OF PAYMENTS COMMITTEE (BOP/164) AND FINDS IT ACCEPTABLE UNDER THE MODIFIED PROCEDURES FOR GATT ARTICLE XVIII CONSULTATIONS. THE TPSC HAS CONCLUDED THAT GREECE'S BALANCE OF PAYMENTS DEFICIT WILL PERSIST THROUGH 1976 AND CONSIDERS JUSTIFIED THE TRADE RESTRICTIONS IN EFFECT.

2. RECOMMENDATIONS: -- THE US DELEGATION SHOULD:

A. ACCEPT GREECE'S STATEMENT TO THE COMMITTEE (BOP/164) AND THE RESTRICTIONS BEING APPLIED TO IMPORTS. STATE THAT WE HOPE GREECE WILL RESUME ITS MOVEMENT TOWARD TRADE LIBERALIZATION AS CIRCUMSTANCES PERMIT, AND ASK ABOUT GREECE'S PLANS FOR LIBERALIZATION.

B. NOTE THAT IN ITS STATEMENT GREECE ASSERTS THAT IMPORT LICENSES ARE ISSUED AUTOMATICALLY FOR MOST ITEMS ON LIST A AND ASK FOR WHICH PRODUCTS LICENSES ARE NOT ISSUED AUTOMATICALLY.

C. IF APPROPRIATE, ASK THE GREEK DELEGATE TO GIVE HIS GOVERNMENT'S PROJECTION OF GREECE'S CURRENT ACCOUNT AND BALANCE OF PAYMENTS SITUATION IN 1976, 1977 AND 1978.

D. IF APPROPRIATE, REQUEST THE GREEK DELEGATE TO PRESENT HIS GOVERNMENT'S STRATEGY FOR ELIMINATING OR COPING WITH THE CURRENT ACCOUNT DEFICIT IN THE MEDIUM AND LONG TERM.

3. BACKGROUND -- GREEK ECONOMY. THE GREEK ECONOMY UNDERWENT A TROUBLED PERIOD SINCE THE LAST CONSULTATIONS (IN MARCH 1974), BUT IS NOW IMPROVING. A RECESSION IN GREECE INTENSIFIED IN MID-1974 WHEN WEAKENED DOMESTIC DEMAND WAS EXACERBATED BY DISLOCATIONS CAUSED BY POLITICAL EVENTS IN GREECE AND CYPRUS. THE GNP IN REAL TERMS FELL BY 3.2 PERCENT IN 1974. (AGRICULTURAL PRODUCTION INCREASED 11.4 PERCENT BUT MANUFACTURING LIMITED OFFICIAL USE

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DECLINED BY 2.8 PERCENT AND CONSTRUCTION BY 31 PERCENT.) EXPANSIONARY MEASURES STIMULATED A RECOVERY AND IN 1975 REAL GNP ROSE BY 5 PERCENT. THE VOLUME OF AGRICULTURAL OUTPUT INCREASED BY 3 PERCENT IN 1975, MANUFACTURING BY 4.3 PERCENT, MINING BY 2.5 PERCENT AND CONSTRUCTION BY 3.9 PERCENT.

4. DURING THE RECESSION IN 1974, TOTAL DOMESTIC DEMAND

IN GREECE FELL BY 5.7 PERCENT, WITH THE LARGEST DECLINE IN PRIVATE INVESTMENT, PARTICULARLY HOUSING. PRIVATE CONSUMPTION GREW BY 2 PERCENT. DOMESTIC DEMAND INCREASED BY 5 PERCENT IN 1975, DUE LARGELY TO THE GOVERNMENT'S REFLATIONARY POLICIES, BUT PRIVATE CONSUMER DEMAND HAS REMAINED STATIC IN 1976. ALLOWING FOR INFLATION, RETAIL SALES IN THE FIRST FIVE MONTHS OF 1976 WERE CONSTANT COMPARED WITH THE SAME PERIOD IN 1975. INVESTMENT HAS BEEN WEAK, BUT THERE ARE SIGNS THAT IT MAY INCREASE IN THE FOURTH QUARTER OF 1976. PRODUCTION ACTIVITY CONTINUES TO INCREASE, AND THE GNP IS EXPECTED TO GO UP BY 4 PERCENT IN 1976. MANUFACTURING IN THE FIRST FIVE MONTHS ROSE BY 6.6 PERCENT OVER THE LEVEL IN THE SAME PERIOD IN 1975. EXPORT DEMAND PARTICULARLY FOR TEXTILES AND CEMENT SEEMS AN IMPORTANT FACTOR.

5. INFLATION REMAINS A PROBLEM. THE CONSUMER PRICE INDEX IN JULY 1976 WAS 14.4 PERCENT ABOVE THAT IN JULY 1975, AND THE GOVERNMENT PREDICTS AN INFLATION RATE OF 12 TO 14 PERCENT IN 1976.

6. BALANCE OF PAYMENTS. IN 1974 AND 1975 GREECE SUFFERED TRADE DEFICITS OF 2.89 BILLION DOLLARS AND 2.92 BILLION DOLLARS, RESPECTIVELY. NET INVISIBLE RECEIPTS CONTRIBUTED 1.65 BILLION DOLLARS AND 1.91 BILLION DOLLARS IN THOSE TWO YEARS, LEAVING CURRENT ACCOUNT DEFICITS OF 1.2 BILLION DOLLARS AND 1.0 BILLION DOLLARS. IMPORTS INCREASED BY ONLY 4.8 PERCENT IN 1975 DUE TO SLACK DOMESTIC DEMAND, LAGGING INVESTMENT, FUEL SAVINGS PROGRAMS, GOOD HARVESTS AND THE DEVALUATION OF THE DRACHMA. AT THE SAME TIME, EXPORTS INCREASED BY 10.4 PERCENT. EARNINGS IN THE INVISIBLES ACCOUNT LIMITED OFFICIAL USE

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WERE VERY GOOD IN 1975 AND WERE RESPONSIBLE FOR THE 18 PERCENT DECREASE IN THE CURRENT ACCOUNT DEFICIT FROM 1.2 BILLION DOLLARS IN 1974 TO 1.0 BILLION DOLLARS IN 1975.

7. NET CAPITAL INFLOWS, PUBLIC AND PRIVATE, INCREASED BY 19 PERCENT TO 1.27 BILLION DOLLARS IN 1975. THIS EXCEEDED THE 1.0 BILLION DOLLARS CURRENT ACCOUNT DEFICIT BUT WAS OFFSET BY THE 220 MILLION DOLLARS IN ERRORS AND OMISSIONS, LEAVING RESERVES ONLY SLIGHTLY HIGHER THAN AT THE END OF 1974. NET PRIVATE CAPITAL, WHICH INCREASED BY 30 PERCENT TO 876 MILLION DOLLARS ACCOUNTED FOR THE ENTIRE INCREASE OF CAPITAL INFLOWS. NET OFFICIAL, LONG-TERM BORROWING AND GRANTS REMAINED AT 394 MILLION DOLLARS. AT THE END OF 1975 RESERVES

STOOD AT 911 MILLION DOLLARS, AN INCREASE OF 7 MILLION DOLLARS OVER 1974 AND EQUIVALENT TO ABOUT 2.3 MONTHS OF IMPORTS. AS OF JULY 31, 1976, OFFICIAL RESERVES AMOUNTED TO 880 MILLION DOLLARS, SLIGHTLY LESS THAN THE VALUE OF TWO MONTHS IMPORTS.

8. THE 1976 OUTLOOK, BASED ON SIX MONTHS OF PRELIMINARY DATA, IS FOR A HIGHER CURRENT ACCOUNT DEFICIT SINCE THE ESTIMATED 11 TO 13 PERCENT INCREASE IN THE TRADE DEFICIT PROBABLY WILL NOT BE COMPLETELY OFFSET BY THE PROJECTED RISE IN INVISIBLES RECEIPTS. THE AMERICAN EMBASSY IN ATHENS ESTIMATES A CURRENT ACCOUNT DEFICIT OF 1.15 BILLION DOLLARS IN 1976, WHILE THE BANK OF GREECE EXPECTS A DEFICIT OF 1.2 BILLION DOLLARS. NET PRIVATE CAPITAL INFLOWS ARE EXPECTED TO BE HIGHER THAN IN 1975. THUS OFFICIAL BORROWING, IN THE RANGE OF 300 MILLION DOLLARS TO 500 MILLION DOLLARS, SHOULD BE LOWER THAN IN 1975. POTENTIAL BORROWING SOURCES AVAILABLE TO THE GREEK GOVERNMENT ARE ADEQUATE, SO THERE SHOULD BE NO DIFFICULTY IN FINANCING THE CURRENT ACCOUNT DEFICIT IN 1976.

9. EXCHANGE AND TRADE POLICIES. GREECE MAINTAINS THE SAME IMPORT CONTROL MECHANISMS IN EFFECT AT THE TIME OF THE LAST CONSULTATION. ALL IMPORTS REQUIRE FOREIGN EXCHANGE PERMITS WHICH ARE GENERALLY GRANTED. LIMITED OFFICIAL USE

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IN THE CASE OF THE UNITED STATES, CANADA, THE COUNTRIES PARTICIPATING IN THE EUROPEAN MONETARY AGREEMENT, AND COUNTRIES WITH WHICH GREECE MAINTAINS BILATERAL CLEARING ARRANGEMENTS, COMMERCIAL BANKS ISSUE THE PERMITS. IN THE CASE OF OTHER COUNTRIES AND IN THE CASE OF STATE IMPORTS, THE NATIONAL BANK OF GREECE AUTHORIZES THE PERMITS. IN ADDITION TO THE PERMITS, GREECE REQUIRES LICENSES FOR THE IMPORTATION OF CERTAIN LUXURY, AGRICULTURAL AND OTHER PRODUCTS (LIST A) AND OF MACHINERY, ACCESSORIES AND PARTS (LIST B). A SPECIAL COMMITTEE ISSUES THE LICENSES FOR LIST A GOODS, FOR THE MOST PART AUTOMATICALLY AND WITHOUT RESTRICTION. THE MINISTRY OF INDUSTRY ISSUES THE LICENSES FOR LIST B GOODS. THE GREEK GOVERNMENT MAINTAINS IN EFFECT PRIOR DEPOSIT REQUIREMENTS FOR ABOUT 15 PERCENT OF IMPORTS WHEN THE IMPORTERS INTEND TO PAY IN CASH. IN CONNECTION WITH ITS PROGRESSION TOWARD MEMBERSHIP IN THE EC, GREECE HAS BEEN ELIMINATING IN STAGES THE DEPOSIT REQUIREMENTS ON GOODS FROM THE EC AND ALL OTHER GATT MEMBERS. THE DEPOSIT REQUIREMENTS WILL BE ELIMINATED IN FULL ON NOVEMBER 1, 1984.

10. IF EMBASSY ATHENS HAS SUBSTANTIAL COMMENTS OR
SUGGESTIONS, WE WOULD BE PLEASED TO RECEIVE THEM. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS, COMMITTEE MEETINGS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE267734
Document Source: CORE
Document Unique ID: 00
Drafter: RREIS
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760406-0003
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976101/aaaaaast.tel
Line Count: 226
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 GENEVA 7394, 76 ATHENS 9007, 76 ATHENS A-139
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2004 by ElyME>; APPROVED <02 AUG 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GATT BALANCE OF PAYMENTS COMMITTEE CONSULTATIONS ON GREECE, NOVEMBER 4, 1976
TAGS: ETRD, EFIN, GR, GATT
To: GENEVA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006